
Princeton University
Spring 2022, Session II

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(subject: SPI-593i)

Overview
This course will evaluate fiscal policies that governments will likely consider in the 21st century, from both empirical and theoretical perspectives. Recent economic developments (including technological change, the rise of robots, and geographic sorting) present many challenges for policymakers. After briefly reviewing some of these developments, the course will focus on assessing several likely policy responses: taxing capital and top-income earners, the safety net and redistribution, and place-based policies that aim to address spatial disparities in opportunity.

Course Outline (subject to change)
1. U.S. Fiscal Policy and the Deficit Debate
   a. Fiscal policy, debt, and deficits
   b. Government Intervention in the Economy
   c. Policy discussion: do we need to address rising US debt and deficits? If so, how?

2. Capital taxation in the 21st century: taxation of wealth and investment income
   a. Background on wealth inequality, capital gains taxation, wealth and estate taxes
   b. Policy discussion: should we introduce a top wealth tax? Or is it better to reform capital gains and estate taxation and if so how (e.g., mark-to-market, higher rates, exemption changes, etc)?

3. Capital taxation in the 21st century: corporate taxation
   a. Background on corporate taxation
   b. Policy discussion: how much should we tax corporations? Who benefits from corporate tax cuts? Should we broaden the base and lower rates? Should we have a global minimum tax at 15%? Should we have a minimum tax based on book income?

4. Taxing top earners in the 21st century
   a. Background on labor, top income taxation, and key tax expenditures
   b. Policy discussion: How high should top income tax rates be? How large should tax expenditures be? Should we eliminate the state and local tax deduction?

5. Place-based policies and local economic development
   a. Background on place-based policies and spatial disparities in opportunity
   b. Policy discussion: What is the economic case (if any) for targeting places instead of people? Should we invest in economic development for places or simply move people away from depressed areas?

6. Tax and labor market policy toward low-income families
a. Background on EITC, minimum wage, and universal basic income
b. Policy discussion: How generous should the safety net be? And how should we do it? Specifically, should we expand the EITC, increase the minimum wage, or provide everyone with a universal basic income, or something else?

Office Hours:
Office hours will be by appointment

Grades:
The course grade will be determined as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Weekly participation</td>
<td>25%</td>
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<tr>
<td>Weekly one-page policy memos</td>
<td>40%</td>
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<tr>
<td>One in class policy presentation</td>
<td>15%</td>
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<tr>
<td>Four-page policy proposal memo</td>
<td>20%</td>
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Course Format and Requirements:
The first week of class will be different from the remaining classes. The first week of class will give an overview of fiscal policy, describe the course, and then provide an introductory policy discussion on upcoming fiscal challenges.

Starting with the second week of classes, each week will have three components outlined below. The goal is to have an engaging, informative, and policy relevant discussion of central fiscal policy issues. Through in-class participation, students will put themselves into the shoes of policymakers sorting through tough policy decisions using economic analysis, evidence, and theory as a basis for debate.

1. Lecture component framing the key economic issues
2. Student-led presentation of background material on the policy
3. Interactive class discussion about the merits of different policy options to accomplish prescribed goal.

Participation
Attendance and participation in class discussion are very important components of the class. Students are expected to come to class having read and thought about the assigned materials. Students who are most successful will be those who come to class with initial perspectives on the topics presented grounded in the readings.

One in class policy presentation
Starting with the second week of class, each class session will have one group of students jointly present background information for the policy discussion that week. The presentation should include information on: (1) the goal of the policy and the problem it is trying to solve, (2) a description of how the policy works (e.g., what are the policy parameters, eligibility rules, etc.), (3) how have these policy rules evolved overtime, why did they change, and what are they currently, (4) who are the relevant stakeholders, what do they want, and who benefits from the policy, and (5) how well is the policy working and how does it impact economic activity?
Four one-page policy memos
Students who are not presenting that week will receive randomly assigned policy positions to defend in the discussion. They should prepare a one page, bullet point policy memo due midnight the day before class, which will be circulated to the class the morning before class.

Four-page policy proposal due at the end of the term
Each student should write a four-page policy proposal memo making the case to enact to new policy or to eliminate an existing policy that was not covered in the course. Similar to the policy presentation, the memo should include information on: (1) the goal of the policy and the problem it is trying to solve, (2) a description of how the policy works or would work (e.g., what are the policy parameters, eligibility rules, etc.), (3) who are the relevant stakeholders, what do they want, and who benefits from the policy, and (4) how does/ would the policy impact economic activity? (5) how much would it impact the budget?
Lecture Schedule and Readings (subject to change):

Week 1: U.S. Fiscal Policy, the deficit debate, and government intervention in the economy

A. U.S. Fiscal Policy and Fiscal Outlook

https://www.oxfordscholarship.com/view/10.1093/os0/9780190645410.001.0001/os0-9780190645410#.XWbNQQITZC0.gmail

Congressional Budget Office, 2019, “The Budget Outlook: 2021 to 2031,”
https://www.cbo.gov/publication/56970


B. Policy Discussion: Addressing US fiscal challenges


Furman, Jason and Larry Summers, 2019, “Further Thinking on the Costs and Benefits of Deficits.”

Elmendorf, Douglas, 2019, “Should we reduce federal budget deficits now?”
https://www.hks.harvard.edu/more/about/leadership-administration/deans-office/deans-presentations/should-we-reduce-federal

Auerbach, Alan, William Gale, Aaron Krupkin, 2019, “If not now, when? New estimates for the Federal Budget Outlook”
https://eml.berkeley.edu/~auerbach/AGK%202.11.19.pdf

Blanchard, Olivier, 2019, “Public Debt and Low Interest Rates”
https://www.aeaweb.org/articles?id=10.1257/aer.109.4.1197


**Week 2: Taxing Capital: Taxation of wealth and investment income**

**A. Economic Background**


https://scholar.princeton.edu/sites/default/files/wealth_main_resubmitted.pdf

http://www.columbia.edu/~wk2110/bin/CapitalGainsAndEstateTax.pdf


https://scholar.princeton.edu/sites/default/files/capgains-sszz_1.pdf

B. Policy Discussion


Kamin, David, 2016, “Taxing Capital: Paths to a fairer and broader US Tax System”


Joint Committee on Taxation, 2015, “History, Present Law, and Analysis of the Federal Wealth Transfer Tax System,”
https://www.jct.gov/publications.html?func=startdown&id=4744

https://ssrn.com/abstract=2862144

http://www.trouphoward.com/uploads/1/2/7/7/127764736/the_assessment_gap__racial_inequalities_in_property_taxation.pdf

https://link.springer.com/article/10.1007/s12114-010-9063-1

C. Supplemental Readings

Olorunnipa, Toluse, 2019 “Warren’s ambitious agenda relies on a massive wealth tax that the rich may evade” Washington Post.  
https://wapo.st/2wbHyLx?tid=ss_mail&utm_term=.0d75afd0b9c2

Sarin, Natasha and Larry Summers, 2019, “A broader tax base that closes loopholes would raise more money than plans by Ocasio-Cortex and Warren” Boston Globe.

Sarin, Natasha and Larry Summers, 2019, “Fair comprehensive tax reform is the right path forward” Boston Globe.


https://t.co/uuvjf25PTh?amp=1


U.S. Financial Diaries Project. https://www.usfinancialdiaries.org, Click on "Meet the Households."

Week 3: Taxing Capital: Corporate Taxation
A. Economic Background


https://eml.berkeley.edu/~auerbach/Auerbach-Hassett%201-8-15.pdf


B. Policy Discussion


Summers, Larry, 2017, “One last time on who benefits from corporate tax cuts”

(*) Furman, Jason, 2017, “How to make tax reform bipartisan,” WSJ.
https://www.wsj.com/articles/how-to-make-tax-reform-bipartisan-1491164051

https://www.nytimes.com/2017/04/21/upshot/tax-code-business.html?_r=0

(*) Smith, Noah, “There’s a lot to like about cutting corporate taxes,” Bloomberg.


C. Supplemental:

https://www.nytimes.com/2014/01/06/opinion/abolish-the-corporate-income-tax.html?_r=0

Auerbach, Alan, 2010, “A Modern Corporate Tax” Hamilton project paper.
http://www.hamiltonproject.org/papers/a_modern_corporate_tax

https://www.nytimes.com/2014/03/24/opinion/krugman-wealth-over-work.html?_r=0


**Week 4: Taxing top earners**

A. Economic Background

https://www.aeaweb.org/articles.php?f=s&doi=10.1257/jep.27.3.21


http://www.sciencemag.org/content/344/6186/843.full

http://www.nber.org/papers/w21841

https://www.aeaweb.org/articles?id=10.1257/jep.27.3.35


Jones, Chad, 2019, “Taxing Top Income in a World of Ideas,” working paper.  


B. Policy Discussion


Week 5: Place-based policy

A. Economic Background

Chetty, Raj, Nathan Hendren, Pat Kline, Emmanuel Saez, “Where is the land of opportunity? Intergenerational mobility in the US?” Voxeu.org
http://voxeu.org/article/where-land-opportunity-intergenerational-mobility-us

Swanson, Ana, 2016, “They’re some of the unluckiest places in America – and may confirm what’s wrong with the economy” Washington Post (on the research of Yagan)

Davis, Bob, and Jon Hilsenrath, “How the China Shock, Deep and Swift, Spurred the Rise of Trump” WSJ (on the research of Autor, Dorn, and Hanson)

B. Policy Discussion


(*) Busso, Matias, Jesse Gregory, Pat Kline, 2014, “Results of the federal urban Empowerment Zone program”
http://www.irp.wisc.edu/publications/focus/pdfs/foc301d.pdf


C. Supplemental


Week 6: The Safety Net

A. Background on Earned Income Tax Credit, Minimum Wage, Universal Basic Income


Nichols, Austin, and Jesse Rothstein "The Earned Income Tax Credit." In Economics of Means-Tested Transfer Programs in the United States, Volume I, Robert A. Moffitt, ed.


https://www.aeaweb.org/articles?id=10.1257/app.20140073


B. Policy Discussion

https://gspp.berkeley.edu/assets/uploads/research/pdf/HoynesRothstein_formatted.pdf


(*) Congressional Budget Office. 2015. Effective Tax Rates on Low and Moderate Income Workers.


http://www.nytimes.com/2013/03/03/business/the-minimum-wage-employment-and-income-distribution.html


(*) Rothstein, Jesse, and Diane Schazenbach “What Does the Seattle Experience Teach Us About Minimum Wages?” Econofact.
http://econofact.org/what-does-the-seattle-experience-teach-us-about-minimum-wages

Acemoglu, Daron, 2019 “Why Universal Basic Income is a Bad Idea” Project Syndicate prosyn.org/AsbYW6F

Yglesias, M., 2013, “Martin Luther King’s Case for a Guaranteed Basic Income” Slate
https://slate.com/business/2013/08/martin-luther-king-guaranteed-basic-income.html

Lowrey, Annie Give People Money: How a universal basic income would end poverty, revolutionize work, and remake the world (New York, 2018)

Yglesias, M., 2014, “Fight Poverty by Giving Poor People Money” Slate

Matthews, Dylan, 2017 “A basic income really could end poverty forever,” Vox.


